

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AGR-10 CEA-01 CIAE-00 DODE-00

EB-06 FRB-01 H-02 INR-07 INT-05 L-02 LAB-03 NSAE-00

NSC-05 PA-02 RSC-01 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01

SWF-01 XMB-04 IO-10 DRC-01 /130 W

----- 038111

R 181656Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4891

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 18

BEGIN SUMMARY: THE MOST IMPORTANT NEWS ON THE DOMESTIC

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ECONOMIC FRONT WAS PRIME MINISTER WILSON'S SPEECH ON

MONDAY, OCTOBER 14, WHICH WAS CONCILIATORY, MODERATE, AND EMPHASIZED THE NEED FOR LABOR UNIONS TO OBSERVE THEIR END OF THE "SOCIAL COMPACT." (SEE LONDON 13416 AND 13403 FOR DETAILS AND ANALYSIS.) LABOR LEADER JACK JONES ON OCTOBER 17, CALLED FOR UNIONS' OBSERVATION OF THE COMPACT. BEYOND THAT, THERE WERE MORE WARNINGS AND SCARES ABOUT THE FINANCIAL CRISIS IN THE CORPORATE SECTOR, A RISE IN THE OUTPUT WHOLESALE PRICE INDEX WHICH MEANS A RISE IN RETAIL PRICES IN THE NEAR FUTURE, AND FURTHER EVIDENCE OF THE WEAKENING OF DEMAND AND LEVELING OFF OF OUTPUT.

STERLING REMAINED STABLE VIS-A-VIS THE DOLLAR CLOSING THURSDAY (OCT. 17) AT \$2.3330, ALTHOUGH THE TRADE-WEIGHTED DEPRECIATION WIDENED FROM 18.2 PERCENT ON FRIDAY (OCT. 11) TO 18.6 PERCENT ON THURSDAY (OCT. 17) DUE PRIMARILY TO STRENGTHENING OF THE SWISS FRANC. GOLD CLOSED THURSDAY (OCT. 17) AT \$155.00 DOWN \$3.50 FROM LAST THURSDAY. THE UK RECORDED A CURRENT ACCOUNT DEFICIT OF 273 MILLION POUNDS (S.A.) IN SEPTEMBER, UP 57 MILLION POUNDS OVER AUGUST'S DEFICIT. END SUMMARY.

I. U.K. DOMESTIC ECONOMY

1. CORPORATE LIQUIDITY PROBLEMS WERE EMPHASIZED IN A SPEECH ON OCTOBER 17 BY GORDON RICHARDSON, GOVERNOR OF THE BANK OF ENGLAND AND IN A MEETING ON OCTOBER 15 BETWEEN THE CONFEDERATION OF BRITISH INDUSTRY (CBI) AND THE CHANCELLOR OF THE EXCHEQUER. RICHARDSON WAS CONCERNED ABOUT INDUSTRIAL INVESTMENT FALLING AS A RESULT OF CORPORATE LIQUIDITY PROBLEMS, AND HE SAID THAT CHANGING THE PRICE CODE TO ALLOW FULL PASS THROUGH OF LABOR COST INCREASES WOULD ONLY KEEP THE POSITION FROM GETTING WORSE, BUT WOULD NOT MAKE IT MUCH BETTER. THE CBI WILL MAKE A FULL PRESENTATION TO THE CHANCELLOR NEXT WEEK, BUT THEY REPORTEDLY BELIEVE THAT THE CORPORATE SECTOR WILL EXPERIENCE A 3 BILLION POUND DEFICIT THIS YEAR AND THAT THE PRICE CODE MUST BE MODIFIED, ACCELERATED CORPORATE TAX PAYMENTS MUST BE REVERSED, AND THAT THERE SHOULD BE SOME WAY OF AIDING THE WORST HIT FIRMS.

2. WHOLESALE:

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MOVEMENTS IN SEPTEMBER WERE MIXED.

THE "INPUT INDEX," WHICH BASICALLY COVERS RAW MATERIALS, SEMI-FINISHED GOODS AND FUEL PURCHASED BY INDUSTRY SHOWED A DECLINE OF 0.4 PERCENT FOR SEPTEMBER (FROM 217.3 TO 216.5 -- 1970 EQUALS 100) WHILE THE "OUTPUT INDEX," WHICH COVERS MANUFACTURED GOODS' PRICES EX-FACTORY ROSE ABOUT 1.5 PERCENT IN SEPTEMBER (155.7 TO 158.1, -- 1970 EQUALS

100). THE TWO INDEXES HAVE INCREASED BY 43.3 PERCENT AND 25.4 PERCENT RESPECTIVELY ON A YEAR AGO. THE SEPTEMBER INCREASE IN THE OUTPUT INDEX IMPLIES MORE IMPETUS TO RETAIL PRICE INCREASES IN THE NEAR FUTURE. THE FALL IN THE "INPUT INDEX" RESULTED MAINLY FROM A DECLINE IN NON-FERROUS METAL PRICES.

3. RETAIL SALES PROVISIONAL FIGURES INDICATE A 0.4 PERCENT RISE IN SEPTEMBER OVER AUGUST, FROM 111.5 TO 112 (SEASONALLY ADJUSTED). THIS FIGURE IS STILL BELOW THE AVERAGE FIGURE FOR THE FOURTH QUARTER OF 1973 (112.3).

4. INDUSTRIAL PRODUCTION ROSE BY ABOUT 1/2 PERCENT BETWEEN JULY AND AUGUST. THE FINAL AUGUST FIGURE FOR THE ALL INDUSTRIES INDEX WAS 110.5; THE JULY FIGURE WAS 110.0 (1970 EQUALS 100, ALL FIGURES SEASONALLY ADJUSTED). THE

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INDEX FOR TOTAL MANUFACTURING PRODUCTION REACHED 112.4 IN
AUGUST AS COMPARED WITH 111.1 IN JULY. THIS IS A 1.2 PER-

CENT INCREASE.

TOTAL INDUSTRIAL PRODUCTION STILL HOVERS
SLIGHTLY BELOW THE AVERAGE LEVEL OF THE THIRD QUARTER 1973
WHILE TOTAL MANUFACTURING PRODUCTION HAS NOW EXCEEDED ITS
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PREVIOUS HIGH OF OCTOBER 1973.

5. THE FINANCIAL SECTOR WAS SHAKEN BY THE NEWS THAT A
LARGE FINANCIAL CONGLOMERATE, JESSEL SECURITIES, IS SUFFERING A CASH CRISIS. THIS RESULTS FROM DIFFICULTIES IN
ONE OF JESSEL'S SUBSIDIARIES, LONDON INDEMNITY AND GENERAL
INSURANCE, A LARGE INSURANCE FIRM. THE INSURANCE COMPANY
FROZE ALL POLICYHOLDER DEALINGS PENDING A RESCUE EFFORT
BY OTHER INSURANCE COMPANIES. STOCK EXCHANGE TRADING IN
JESSEL SHARES IS SUSPENDED. THE INSURANCE SUBSIDIARY
EVIDENTLY HAS BEEN RECEIVING CASH INJECTIONS FROM JESSEL
SINCE FEBRUARY AFTER THE INSURANCE COMPANY HAD RUN INTO
FINANCIAL PROBLEMS RESULTING FROM ITS RAPID ISSUANCE OF
GUARANTEED INCOME BONDS AND SHARE-LINKED POLICIES. THE
DECLINE OF THE STOCK EXCHANGE (IN WHICH ABOUT 30 PERCENT
OF ITS FUNDS ARE INVESTED) AND HIGH INTEREST RATES
REDUCING THE VALUE OF PORTFOLIO HOLDINGS ARE CITED AS
AS PRIMARILY RESPONSIBLE FOR THE COMPANY'S PROBLEMS. DESPITE THE NEWS, HOWEVER, EQUITIES MOVED AHEAD SLIGHTLY,
MAINLY ON THE STRENGTH OF PRIME MINISTER WILSON'S CONCILIATORY APPROACH TO ECONOMIC PROBLEMS AND PROMISE OF
RELIEF FOR INDUSTRY'S LIQUIDITY PROBLEMS AND STIMULATION
OF INVESTMENT.

II. INTERNATIONAL

6. STERLING REMAINED STABLE VIS-A-VIS THE DOLLAR THROUGHOUT THE WEEK WITH A VERY LOW VOLUME OF TRANSACTIONS. THE
POUND CLOSED THURSDAY (OCTOBER 17) AT \$2.3330 DOWN FIVE
POINTS FROM LAST FRIDAY'S (OCT. 11) CLOSE OF \$2.3335.
SOURCES REPORT THAT THERE HAS BEEN LITTLE OR NO MOVEMENT

OUT OF THE DOLLAR AND STERLING MID-MONTH OIL-ROYALTY PAYMENTS INTO OTHER CURRENCIES. THE ONLY MAJOR MOVEMENT OUT OF STERLING DURING THE WEEK WAS VIS-A-VIS THE SWISS FRANC WHICH STRENGTHENED FOLLOWING THE ANNOUNCEMENT OF THE RELAXATION OF REGULATIONS GOVERNING INTEREST ON NON-RESIDENT DEPOSITS. THE STRENGTHENING OF THE SWISS FRANC CAUSED THE TRADE-WEIGHTED DEPRECIATION OF THE POUND TO WIDEN FROM 18.2 PERCENT ON FRIDAY (OCT. 11) TO 18.6 PERCENT ON THURSDAY (OCT. 17). GOLD CLOSED THURSDAY (OCT 17) AT \$155.00, OFF \$3.50 FROM LAST THURSDAY'S CLOSE.

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7. THE U.K. CURRENT ACCOUNT DEFICIT IN SEPTEMBER WIDENED BY AN ESTIMATED 57 MILLION POUNDS (S.A.) TO 273 MILLION POUNDS. THE DETERIORATION RESULTED FROM AN INCREASED DEFICIT IN OIL-TRADE OF 37 MILLION POUNDS (TO 301 MILLION POUNDS) PLUS AN ADDITION TO THE NONOIL TRADE DEFICIT OF 20 MILLION POUNDS (TO 77 MILLION POUNDS). THE VALUE OF UK TRADE IN SEPTEMBER WAS EXPORTS OF 1,417 MILLION POUNDS AND IMPORTS OF 1,795 MILLION POUNDS (ALL FIGURES S.A., FOB B/P BASIS). SEE LONDON 13427 FOR DETAILS.

8. THE FORWARD PREMIUM NARROWED DURING THE WEEK WITH A LOW VOLUME OF TRANSACTIONS.

	10/10	10/17	CHANGE
1 MONTH	0.70	0.45	DOWN 0.25
3 MONTHS	2.40	1.70	DOWN 0.70
6 MONTHS	4.60	3.80	DOWN 0.80

(ALL FIGURES IN CENTS)

9. THE LOCAL AUTHORITY DEPOSIT RATE EASED ONLY SLIGHTLY.

	10/10	10/17	CHANGE
1 MONTH	10-15/16	10-15/16	UNCHANGED
3 MONTHS	11-13/16	11-3/4	DOWN 1/16
6 MONTHS	12-7/8	12-11/16	DOWN 3/16

10. THE EURODOLLAR RATE CONTINUED ITS DOWNWARD DRIFT THROUGHOUT THE WEEK.

	10/10	10/17	CHANGE
1 MONTH	11-1/8	10-3/16	DOWN 15/16
3 MONTHS	11-1/8	10-15/16	DOWN 3/16
6 MONTHS	11-1/8	11	DOWN 1/8

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, OCTOBER 18.

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